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FISCAL IMPACT STATEMENT

LS 6307

BILL NUMBER: HB 1113

NOTE PREPARED: Dec 15, 2003

BILL AMENDED:

SUBJECT: Residential Rehabilitation Deduction.

FIRST AUTHOR: Rep. Frenz

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: **GENERAL**
 X DEDICATED
 FEDERAL

IMPACT: State & Local

Summary of Legislation: This bill establishes a two-year (four-year for a historic residence) property tax deduction for a principal residence equal to the increase in assessed value resulting from rehabilitation.

Effective Date: July 1, 2004.

Explanation of State Expenditures:

Explanation of State Revenues: The state levies a tax rate for State Fair and State Forestry. Any reduction in the assessed value base will reduce the property tax revenue for these two funds. The revenue reduction under this proposal is estimated at about \$26,000 in FY 2006, \$81,000 in FY 2007, and \$114,000 in years following.

Explanation of Local Expenditures:

Explanation of Local Revenues: Under current law, a taxpayer may receive up to a \$9,000 AV property tax deduction against the assessed value that the rehabilitation of residential property has added. The rehabilitation must be significant and must have been made to an existing structure. For single-family dwellings, the assessed value prior to rehabilitation may not exceed \$18,000. The deduction runs for five years.

This proposal would provide a deduction for the rehabilitation of an owner-occupied residence in lieu of the existing deduction. Under this proposal, the owner of the residence would be entitled to an AV deduction that is equal to 100% of the AV of the rehabilitation. The deduction would run for two years, or four years

in the case of historic property. There would be no prior assessed value limitation. These provisions would increase the level of deductions granted.

This deduction would first take effect with property taxes paid in 2006. According to the Census Bureau, there were \$94.3 B invested in home improvements nationally in 2002. Assuming that Indiana represents about 2% of this amount, it is estimated that approximately \$1.9 B were invested in 2002 for Indiana owner-occupied home improvements. The national investment amount has grown by an average of 7.9% per year over the past five years.

Using the estimated 2002 Indiana investment amount and the national growth rate, the future investment in Indiana is estimated at \$2.2 B in CY 2004, \$2.4 B in CY 2005, and \$2.6 B in CY 2006. The deduction amount for a year is assumed to be the investment for the calendar year prior to the March 1 assessment date. The deduction would double in 2007 because the deduction lasts for at least two years. The deduction would grow slightly bigger in 2008 and 2009 because of the four-year availability for historic properties. The total deduction is estimated at \$2.2 B for taxes paid in CY 2006 and \$4.6 B for taxes paid in CY 2007.

Additional deductions reduce the assessed value tax base. This causes a shift of the property tax burden from the taxpayers receiving the deductions to all taxpayers in the form of an increased tax rate. This bill would cause an estimated \$0.0157 increase in the statewide average net tax rate in CY 2006. This translates into a property tax shift of about \$44 M. In 2007, there would be an estimated \$0.0305 increase in the statewide average net tax rate with a property tax shift of about \$91 M.

Total local revenues, except for cumulative funds, would remain unchanged. The revenue for cumulative funds would be reduced by the product of the fund rate multiplied by the deduction amount applicable to that fund.

State Agencies Affected: Department of Local Government Finance; State Fair Board; Department of Natural Resources.

Local Agencies Affected: County Auditors.

Information Sources: www.census.gov/const/www/c50index.html ; Local Government Database.

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